



GENERAL FUND SUMMARY – FUND BALANCE

INTRODUCTION

The general fund is the primary account that funds a majority of the general operations of state government. General fund expenditures represent over 40 percent of all state expenditures in the general, state special, federal special, and selected proprietary fund types. Total revenues to the account for the 2003 biennium are estimated to exceed \$2.753 billion, which is an increase of \$373.9 million or 15.8 percent from the 2001 biennium. Included in this increase is \$277.2 million of additional revenue due to the enactment of HB 124, local government funding bill, and \$75 million due to the enactment of SB 495, the public schools' mineral rights purchase legislation. Balancing general fund appropriations against anticipated revenues is a major challenge of each legislature and requires a significant coordination between the taxation and appropriation committees. Based on legislative adopted revenue estimates, there are sufficient revenues to support the total general fund budget, leaving an ending fund balance of \$53.8 million. This projected balance does not include any potential revenue gain due to the sale of Montana Powers' assets, federal tax reform, or the Shell Oil audit settlement. If the recently announced audit settlement amount is included, the ending fund balance is \$66.7 million.

This section provides a summary of the general fund account as projected through the 2003 biennium. It begins with a reconciliation of the current (2001 biennium) projected fund balance in order to arrive at the beginning balance for the 2003 biennium. It is followed by a summary of the 2003 biennium projected general fund balance using legislative adopted revenue estimates and appropriations. An overview of significant legislative revenue and disbursement actions is included.

2001 BIENNIUM GENERAL FUND BALANCE

After completion of the Fifty-sixth Special Legislative Session (May 2000), the general fund balance was projected to be \$94.8 million, including a \$37 million reserve for increased distributions to local governments. This balance was based on: 1) revenue estimates adopted in HJR 2; 2) LFD statutory appropriation and reversion estimates; and 3) all general fund appropriations authorized by the legislature. The Special Session Legislature anticipated there would be \$14.9 of supplemental appropriations requested during the 2001 biennium.

As shown in Figure 1, the revised general fund balance at the end of the 2001 biennium is projected to be \$123.6 million. The revised projection for the 2001 biennium general fund balance is based on: 1) revenue estimates adopted by the legislature in HJR 2; 2) LFD statutory appropriation and reversion estimates; 3) general fund appropriations, including supplemental appropriations adopted by the Fifty-seventh Legislature; and 4) the Shell Oil audit settlement. This projected balance equals 5.0 percent of anticipated revenues for the 2001 biennium and is \$65.8 million above the balance anticipated by the Special Session Legislature.

Figure 1
Comparison of 2001 Biennium General Fund Balance
LFD Special Session Fiscal Report vs. Post Session Fiscal Report
 In Millions

	Special Session 2001 Biennium	Revised 2001 Biennium	Difference 2001 Biennium
Beginning Fund Balance	\$109.673	\$109.673	
Revenues			
Current Law Revenue	2,286.279	2,363.827	77.548
Legislation Impacts		13.533	13.533
Residual Transfers	<u>1.840</u>	<u>1.289</u>	<u>(0.551)</u>
Total Funds Available	\$2,397.792	\$2,488.322	\$90.530
Disbursements			
General Appropriations	2,110.278	2,107.999	(2.279)
Statutory Appropriations	92.661	111.928	19.267
Local Assistance Appropriations	70.584	70.584	
Miscellaneous Appropriations	17.708	17.889	0.181
Non-Budgeted Transfers	2.350	5.577	3.227
Continuing Appropriations	1.694	1.487	(0.207)
Supplemental Appropriations	14.900	68.185	53.285
FEMA Wildfire Costs			
Feed Bill Appropriations	5.865	6.700	0.835
Anticipated Reversions	<u>(3.135)</u>	<u>(5.197)</u>	<u>(2.062)</u>
Total Disbursements	\$2,312.905	\$2,385.152	\$72.247
Adjustments	9.931	7.559	(2.372)
Reserved Ending Fund Balance	\$94.818	\$110.729	\$15.911
Local Government Reserve	<u>37.000</u>		<u>(37.000)</u>
Unreserved Ending Fund Balance	<u>\$57.818</u>	<u>\$110.729</u>	<u>\$52.911</u>
New Information Since Adjournment			
Shell Oil Audit Settlement		12.841	12.841
Potential Ending Fund Balance	<u>\$57.818</u>	<u>\$123.570</u>	<u>\$65.752</u>

The increase in the projected general fund balance is due to several factors that have transpired since the adjournment of the Special Legislative Session. Total general fund revenues (revenues plus fund balance) are expected to be \$103.3 million (\$90.5 million plus the \$12.8 million Shell Oil audit settlement) more than anticipated, while disbursements are expected to be \$72.2 million more than authorized by the Fifty-sixth Legislature.

IMPROVED REVENUES

The reason for the improved revenue condition is shown in Figure 2. The information shown in Figure 2 is segregated into pre-session adjustments and adjustments adopted by the Fifty-seventh Legislature. All of the adjustments were the result of additional information becoming available during the budget development cycle.

Figure 2 Significant Revenue Adjustments For 2001 Biennium Special Session vs. Fiscal Report In Millions		
Revenue Component	2001 Biennium Adjustment	Explanation
Pre-Session Adjustments		
Individual Income Tax	\$14.8	More Current Data
Property Tax	12.4	More Current Data
Common School Interest and Income	6.2	New Coal Lease
Insurance Tax and License Fees	4.9	Stronger Growth
Foreign Capital Depository Tax	(7.1)	New Information
Wildfire Reimbursements	28.8	Summer Wildfires
Tobacco Initiative	(10.1)	Voter Approved
All Other Revenue Sources	12.3	More Current Data
Session Adjustments		
House Taxation Adjustments	5.6	Audits, Reimbursements
Senate Taxation Adjustments	9.2	Income, TelCom, Contractors
Legislation Impacts	<u>13.5</u>	Various Bills
Total	<u>\$90.5</u>	

INCREASED DISBURSEMENTS

The primary reasons for the increased disbursements are increased statutory appropriations of \$19.3 million and higher supplemental appropriations of \$53.3 million. Statutory appropriations increased because a portion of FEMA fire reimbursements were statutorily appropriated instead of being included in the supplemental appropriation bill. A complete listing of all supplemental appropriations can be found on page 117, "Fiscal 2001 Supplemental Appropriations".

2001 BIENNIUM PROJECTED FUND BALANCE

As Figure 1 shows, the combined impact of higher revenues, greater disbursements, the elimination of the local government reserve, and a negative \$2.4 million fund balance adjustment is a net increase in the projected fund balance of \$65.8 million for the 2001 biennium.

2003 BIENNIUM PROJECTION

Figure 3 shows the 2003 biennium projected balance in the general fund account prior to and after the Fifty-seventh Legislature. The purpose of this comparison is to highlight legislative action that established the 2003 biennium budget.

Figure 3 Comparison of 2003 Biennium General Fund Balance Pre-Session Present Law vs. Post-Session Total Budget In Millions			
	Pre Session 2003 Biennium	Post Session 2003 Biennium	Difference 2003 Biennium
Beginning Fund Balance	\$85.333	\$110.729	\$25.396
Revenues			
Current Law Revenue	2,400.465	2,409.701	9.236
Legislation Impacts		342.865	342.865
Residual Transfers			
Total Funds Available	\$2,485.798	\$2,863.295	\$377.497
Disbursements			
General Appropriations	2,201.493	2,349.123	147.630
Statutory Appropriations	90.000	92.195	2.195
Local Assistance Appropriations	109.868	326.739	216.871
Miscellaneous Appropriations	9.330	8.483	(0.847)
Non-Budgeted Transfers	9.700	31.930	22.230
Continuing Appropriations			
Supplemental Appropriations			
FEMA Wildfire Costs			
Feed Bill Appropriations	7.028	7.028	
Anticipated Reversions	(6.027)	(6.027)	
Total Disbursements	\$2,421.392	\$2,809.471	\$388.079
Adjustments			
Reserved Ending Fund Balance	\$64.406	\$53.824	(\$10.582)
Local Government Reserve			
Unreserved Ending Fund Balance	<u>\$64.406</u>	<u>\$53.824</u>	<u>(\$10.582)</u>
New Information Since Adjournment			
Shell Oil Audit Settlement		12.841	12.841
Potential Ending Fund Balance	<u>\$64.406</u>	<u>\$66.665</u>	<u>\$2.259</u>

The pre-session estimate of a \$64.4 million general fund balance was developed under the constraints of Section 5-12-303, MCA. These statutes require the executive and the Legislative Fiscal Analyst to develop and analyze the biennium budget using base, present law, and new proposals as defined in Section 17-7-102, MCA. In essence, the projected balance of \$64.4 million would have been the balance if the legislature had continued state government operations at the "present" authorized level including all existing taxation laws.

The second estimate of \$66.7 million is the post-session estimate that incorporates all legislation enacted by the Fifty-seventh Legislature plus the new information that has become available since the adjournment of the session. Figure 3 highlights significant revenue and disbursement actions. The following discussion briefly explains these actions.

SIGNIFICANT REVENUE ACTIONS

The Fifty-seventh Legislature increased the 2003 biennium general fund revenue estimates by \$9.2 million, primarily due to additional audit activity for individual and corporation income tax. In addition, the legislature passed legislation (HB 124 and SB 495), which significantly increased state general fund revenue. HB 124, the local government funding bill, diverts \$277.2 million of local government revenue to the state general fund. Local governments are appropriated replacement revenue from the state general fund.

SB 495 also increases general fund revenue significantly. This bill authorizes a \$75 million loan from the permanent coal tax trust fund to purchase the mineral rights of public school trust lands. The proceeds of the loan will be deposited into the general fund with a corresponding appropriation to purchase the mineral rights. All other legislation enacted decreased general fund revenues by about \$9.3 million for the 2003 biennium.

A more detailed summary of general fund revenues is provided in "Volume II – Revenue Estimates".

SIGNIFICANT DISBURSEMENT ACTIONS

The Fifty-seventh Legislature increased general fund appropriations by about \$388.1 million. This increase was primarily due to new proposals, changes in local government funding, and the authorization to purchase public school mineral rights. The largest dollar increases were in human services, corrections, and education. The legislature added \$67.1 million of new proposals to fund human service program expansions and to increase the state's support for K-12 and higher education.

The legislature also adopted an employee pay plan for the 2003 biennium. This pay increase is estimated to cost about \$69.8 million, with \$31.1 million being provided by the state general fund. (See "State Employee Pay Plan", on page 104 for additional details on employee pay.)

As with previous legislative sessions, there are numerous miscellaneous appropriations ("cat and dog" bills) that were discussed throughout the session. The Fifty-seventh Legislature minimized these appropriations and enacted only \$3.9 million of miscellaneous appropriations beyond those for education, pay plan, and local government funding. These bills are discussed in more detail in agency narratives of Volumes 3 and 4 of this publication and on page 71 of this Volume.

The last significant disbursement change adopted by the legislature was the \$345.0 million general fund appropriation and transfer authority for local government assistance. This authorization was

mitigated by a net reduction in HB 2 (General Appropriation Act) appropriations of \$79.8 million. The net increase in general fund local government assistance is \$265.2 million. This increased expenditure combined with new general fund revenue previously collected at the local level of \$277.2 million results in a net change to the general fund balance of \$12.0 million.

As shown in Figure 3, total appropriations for statutory, local government, and non-budgeted transfers is \$450.9 million or 16.0 percent of the total general fund budget. Because these authorizations are outside the general legislative appropriations sub-committee process, a substantial portion of the future general fund budget may receive no legislative review or evaluation.

CONTINGENCIES

No estimate is included in the projected fund balance for increased expenditures due to emergencies and/or contingencies. These include supplemental budget requests, which historically exceed \$20 million per biennium, with fire suppression costs and other emergencies (such as flooding) being the primary unfunded contingency.

Figure 4 shows the detailed general fund balance sheet. The 2003 biennium ending general fund balance is projected to be \$66.7 million, including all new proposals and initiatives adopted by the legislature and the Shell Oil audit settlement revenue. Although this balance indicates the state is in a better fiscal position than anticipated at the end of the legislative session, it should be noted that this projected balance does not include potential revenue from the sale of Montana Power's asset sales, federal tax reform, or the stronger than anticipated revenue growth currently being observed in fiscal 2001.

Figure 4
2003 Biennium General Fund Balance
Based on Action By the 57th Legislature
 In Millions

	Actual Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated 2001 Biennium	Estimated 2003 Biennium
Beginning Fund Balance	\$109.673	\$176.000	\$110.729	\$39.001	\$109.673	\$110.729
Revenues						
Current Law Revenue	1,163.641	1,200.186	1,198.729	1,210.972	2,363.827	2,409.701
Legislation Impacts		13.533	206.800	136.065	13.533	342.865
Residual Transfers	<u>0.725</u>	<u>0.564</u>			<u>1.289</u>	
Total Funds Available	\$1,274.039	\$1,390.283	\$1,516.258	\$1,386.038	\$2,488.322	\$2,863.295
Disbursements						
General Appropriations	1,046.100	1,061.899	1,195.810	1,153.313	2,107.999	2,349.123
Statutory Appropriations	39.645	72.283	46.262	45.933	111.928	92.195
Local Assistance Appropriations	13.813	56.771	215.529	111.210	70.584	326.739
Miscellaneous Appropriations	4.195	13.694	4.617	3.866	17.889	8.483
Language Appropriations						
Non-Budgeted Transfers	2.350	3.227	18.040	13.890	5.577	31.930
Continuing Appropriations		1.487			1.487	
Supplemental Appropriations		68.185			68.185	
FEMA Wildfire Costs						
Feed Bill Appropriations		6.700		7.028	6.700	7.028
Anticipated Reversions	<u>(0.505)</u>	<u>(4.692)</u>	<u>(3.001)</u>	<u>(3.026)</u>	<u>(5.197)</u>	<u>(6.027)</u>
Total Disbursements	\$1,105.598	\$1,279.554	\$1,477.257	\$1,332.214	\$2,385.152	\$2,809.471
Adjustments	7.559				7.559	
Reserved Ending Fund Balance	\$176.000	\$110.729	\$39.001	\$53.824	\$110.729	\$53.824
Local Government Reserve						
Unreserved Ending Fund Balance	<u>\$176.000</u>	<u>\$110.729</u>	<u>\$39.001</u>	<u>\$53.824</u>	<u>\$110.729</u>	<u>\$53.824</u>
New Information Since Adjournment						
Shell Oil Audit Settlement		12.841			12.841	
Potential Ending Fund Balance		<u>\$123.570</u>	<u>\$51.842</u>	<u>\$66.665</u>	<u>\$123.570</u>	<u>\$66.665</u>



REVENUE SUMMARY

GENERAL FUND REVENUE ESTIMATES

The 2001 legislature adopted general fund revenue estimates and legislation with revenue impacts that result in a projection of \$2.4 billion general fund revenues for the 2003 biennium. The following discussion is a summary of the revenue estimates adopted by the 2001 legislature. Volume 2-“Revenue Estimates” contains a detailed presentation of revenue estimates and a profile of each individual revenue source, including underlying economic assumptions.

HOUSE JOINT RESOLUTION 2

Prior to the convening of the Fifty-seventh Legislature, the Revenue and Taxation Committee (RATC) formally adopted economic assumptions and the associated revenue estimates for fiscal 2001, 2002 and 2003. The RATC estimates were incorporated into HJR 2 and were introduced at the beginning of the Fifty-seventh Legislature. The legislature adopted HJR 2 with some adjustments to the recommendations offered by the RATC. Figure 5 shows the total general fund impact of the adopted adjustments by revenue category. For the three-year period, fiscal 2001 through 2003, total general fund revenue estimates were increased by \$24.1 million from the recommendations of the RATC.

Figure 5
Revenue Estimate Adjustments by 57th Legislature
General Fund
In Millions

Source of Revenue	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated 3-Year Total
Individual Income Tax	\$3.974	\$5.608	\$2.005	\$11.587
Corporation Income Tax	3.500	(0.750)	(0.750)	2.000
Telecommunications Excise Tax	4.690	1.522	1.421	7.633
Public Institutions Reimbursemer	0.614	1.938	1.964	4.516
Wildfire Reimbursements	(2.322)	4.170	0.000	1.848
Public Contractor's Tax	(1.639)	(1.371)	(1.521)	(4.531)
U.S. Mineral Royalty	<u>6.038</u>	<u>(5.000)</u>	<u>0.000</u>	<u>1.038</u>
Total General Fund	<u>\$14.855</u>	<u>\$6.117</u>	<u>\$3.119</u>	<u>\$24.091</u>

Figure 6 shows the amended total estimates by revenue category as contained in HJR 2. Actual fiscal 2000 collections are shown, along with projections for fiscal 2001 through 2003.

Figure 6 House Joint Resolution 2 General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of Total *	Adj. Actual Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 00-01	Estimated Fiscal 02-03	Cumulative % of Total
1 Individual Income Tax	44.37%	\$516.262	\$545.356	\$575.077	\$598.531	\$1,061.618	\$1,173.608	48.70%
2 Property Tax	16.69%	194.197	175.065	173.754	178.828	369.262	352.582	63.34%
3 Corporation Income Tax	7.79%	90.683	74.626	72.903	74.394	165.309	147.297	69.45%
4 Vehicle Tax	0.00%	0.000	0.000	0.000	0.000	0.000	0.000	69.45%
5 Common School Interest and Inco	3.81%	44.296	47.924	42.621	43.600	92.220	86.221	73.03%
6 Insurance Tax & License Fees	3.38%	39.334	40.810	42.656	44.030	80.144	86.686	76.62%
7 Coal Trust Interest	3.37%	39.195	39.117	39.133	39.043	78.312	78.176	79.87%
8 US Mineral Royalty	1.65%	19.243	27.845	21.756	20.474	47.088	42.230	81.62%
9 All Other Revenue	1.76%	20.488	48.460	34.232	19.462	68.948	53.694	83.85%
10 Tobacco Settlement	2.99%	34.804	15.677	18.925	19.147	50.481	38.072	85.43%
11 Telecommunications Excise Tax	0.55%	6.366	21.523	18.756	19.113	27.889	37.869	87.00%
12 Video Gambling Tax	1.19%	13.851	13.828	13.796	15.107	27.679	28.903	88.20%
13 Treasury Cash Account Interest	1.38%	16.088	17.703	14.696	14.127	33.791	28.823	89.40%
14 Estate Tax	1.64%	19.039	19.691	17.118	10.097	38.730	27.215	90.52%
15 Oil & Natural Gas Production Tax	0.98%	11.363	14.188	12.407	11.985	25.551	24.392	91.54%
16 Motor Vehicle Fee	1.01%	11.716	12.954	11.772	12.004	24.670	23.776	92.52%
17 Public Institution Reimbursement	0.97%	11.345	11.755	12.521	12.932	23.100	25.453	93.58%
18 Coal Severance Tax	0.82%	9.502	8.918	9.073	9.058	18.420	18.131	94.33%
19 Liquor Excise & License Tax	0.62%	7.172	7.534	7.925	8.383	14.706	16.308	95.01%
20 Cigarette Tax	0.73%	8.464	8.222	8.057	7.889	16.686	15.946	95.67%
21 Investment License Fee	0.46%	5.390	6.081	6.580	7.119	11.471	13.699	96.24%
22 Lottery Profits	0.50%	5.841	6.197	6.281	6.372	12.038	12.653	96.76%
23 Liquor Profits	0.51%	5.900	5.659	5.977	6.267	11.559	12.244	97.27%
24 Nursing Facilities Fee	0.52%	6.055	5.533	5.547	5.575	11.588	11.122	97.73%
25 Foreign Capital Depository Tax	0.00%	0.000	0.000	0.000	0.000	0.000	0.000	97.73%
26 Electrical Energy Tax	0.41%	4.829	4.562	4.644	4.664	9.391	9.308	98.12%
27 Metalliferous Mines Tax	0.23%	2.703	4.063	4.706	4.553	6.766	9.259	98.50%
28 Highway Patrol Fines	0.35%	4.028	4.096	4.166	4.237	8.124	8.403	98.85%
29 Public Contractors Tax	0.19%	2.162	1.887	2.441	2.478	4.049	4.919	99.06%
30 Wholesale Energy Tax	0.16%	1.895	3.500	3.568	3.614	5.395	7.182	99.36%
31 Tobacco Tax	0.17%	2.017	2.137	2.265	2.400	4.154	4.665	99.55%
32 Driver's License Fee	0.20%	2.333	2.165	2.178	2.194	4.498	4.372	99.73%
33 Railroad Car Tax	0.18%	2.101	1.665	1.688	1.718	3.766	3.406	99.87%
34 Wine Tax	0.09%	1.017	1.059	1.107	1.156	2.076	2.263	99.97%
35 Beer Tax	0.03%	0.370	0.386	0.403	0.421	0.756	0.824	100.00%
36 Telephone License Tax	0.30%	3.491	0.000	0.000	0.000	3.491	0.000	100.00%
37 Long Range Bond Excess	0.01%	0.101	0.000	0.000	0.000	0.101	0.000	100.00%
Total General Fund	100.00%	<u>\$1,163.641</u>	<u>\$1,200.186</u>	<u>\$1,198.729</u>	<u>\$1,210.972</u>	<u>\$2,363.827</u>	<u>\$2,409.701</u>	100.00%
* For Fiscal 2000								

It should be noted that the legislature discussed three issues that would significantly increase available general fund revenues during fiscal 2001, 2002, and 2003. These issues were the Montana Power asset sales, oil and gas audit settlement payments, and the failure of employers to remit the appropriate amount of withholding income taxes. The legislature felt compelled to estimate general fund revenues conservatively and adjusted the estimates for only a portion of the under withholding of individual income taxes. This decision was based on testimony by the Department of Revenue and the procedures outlined to notify employers of the withholding amounts payable. The potential positive impact on future individual income tax estimates was not incorporated into the estimates. The estimates were not adjusted for any potential capital gains income taxes due to the Montana Power asset sales. In addition, the potential for a major oil and gas audit settlement payment was not included in the estimates. In early May, the Department of Revenue notified the Legislative Fiscal Division that they had negotiated a \$25 million audit settlement, a portion of which is general fund.

REVENUE IMPACTS OF OTHER LEGISLATION

Figure 7 shows the general fund revenue impacts of legislation enacted by the Fifty-seventh Legislature. If more than one bill was enacted that impacts a given revenue source, the cumulative impact of the bills is shown for each revenue component.

Figure 7
Revenue Legislation Impacts of 57th Legislature
Total General Fund
 In Millions

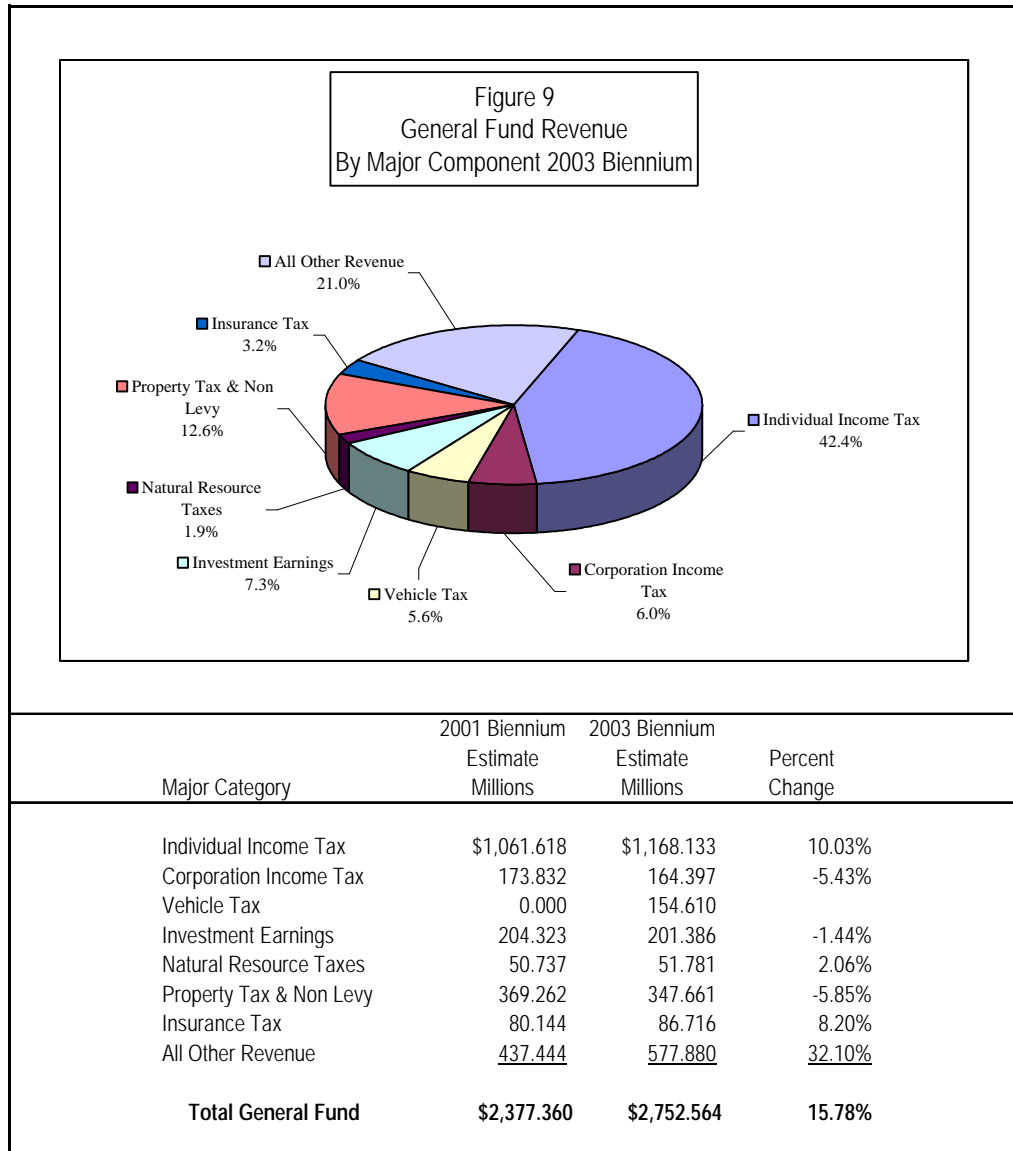
Source of Revenue	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 00-01	Estimated Fiscal 02-03
1 Individual Income Tax	\$0.000	(\$0.082)	(\$5.393)	\$0.000	(\$5.475)
2 Property Tax	0.000	(2.783)	(2.138)	0.000	(4.921)
3 Corporation Income Tax	8.523	8.640	8.460	8.523	17.100
4 Vehicle Tax	0.000	77.319	77.291	0.000	154.610
5 Common School Interest and Income	0.000	6.082	7.633	0.000	13.715
6 Insurance Tax & License Fees	0.000	0.010	0.020	0.000	0.030
7 Coal Trust Interest	0.000	(2.732)	(2.767)	0.000	(5.499)
8 US Mineral Royalty	0.000	0.000	0.000	0.000	0.000
9 All Other Revenue	0.000	73.483	3.172	0.000	76.655
10 Tobacco Settlement	0.000	0.000	0.000	0.000	0.000
11 Telecommunications Excise Tax	(1.904)	1.497	2.000	(1.904)	3.497
12 Video Gambling Tax	6.914	27.722	30.085	6.914	57.807
13 Treasury Cash Account Interest	0.000	(0.025)	(0.025)	0.000	(0.050)
14 Estate Tax	0.000	0.000	0.000	0.000	0.000
15 Oil & Natural Gas Production Tax	0.000	0.000	(0.001)	0.000	(0.001)
16 Motor Vehicle Fee	0.000	13.410	13.688	0.000	27.098
17 Public Institution Reimbursements	0.000	0.000	0.000	0.000	0.000
18 Coal Severance Tax	0.000	0.000	0.000	0.000	0.000
19 Liquor Excise & License Tax	0.000	1.736	1.837	0.000	3.573
20 Cigarette Tax	0.000	0.000	0.000	0.000	0.000
21 Investment License Fee	0.000	0.000	0.000	0.000	0.000
22 Lottery Profits	0.000	(0.032)	(0.194)	0.000	(0.226)
23 Liquor Profits	0.000	(0.146)	(0.422)	0.000	(0.568)
24 Nursing Facilities Fee	0.000	0.000	0.000	0.000	0.000
25 Foreign Capital Depository Tax	0.000	0.000	0.000	0.000	0.000
26 Electrical Energy Tax	0.000	0.000	0.000	0.000	0.000
27 Metalliferous Mines Tax	0.000	0.000	0.000	0.000	0.000
28 Highway Patrol Fines	0.000	0.025	0.025	0.000	0.050
29 Public Contractors Tax	0.000	0.000	0.000	0.000	0.000
30 Wholesale Energy Tax	0.000	0.000	0.000	0.000	0.000
31 Tobacco Tax	0.000	0.000	0.000	0.000	0.000
32 Driver's License Fee	0.000	0.000	0.000	0.000	0.000
33 Railroad Car Tax	0.000	0.000	0.000	0.000	0.000
34 Wine Tax	0.000	0.193	0.201	0.000	0.394
35 Beer Tax	0.000	2.482	2.592	0.000	5.074
36 Telephone License Tax	0.000	0.000	0.000	0.000	0.000
37 Long Range Bond Excess	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Total General Fund	<u>\$13.533</u>	<u>\$206.799</u>	<u>\$136.064</u>	<u>\$13.533</u>	<u>\$342.863</u>

CONSOLIDATED GENERAL FUND REVENUE ESTIMATES

Figure 8 shows the revised general fund revenue estimates by source which is the sum of HJR 2 estimates and all legislation impacts. These estimates are used in the preceding "General Fund Summary" section in determining the ending general fund balance.

Figure 8 House Joint Resolution 2 Plus Legislation Impacts General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of Total *	Adj. Actual Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 00-01	Estimated Fiscal 02-03	Cumulative % of Total
1 Individual Income Tax	44.37%	\$516.262	\$545.356	\$574.995	\$593.138	\$1,061.618	\$1,168.133	42.44%
2 Property Tax	16.69%	194.197	175.065	170.971	176.690	369.262	347.661	55.07%
3 Corporation Income Tax	7.79%	90.683	83.149	81.543	82.854	173.832	164.397	61.04%
4 Vehicle Tax	0.00%	0.000	0.000	77.319	77.291	0.000	154.610	66.66%
5 Common School Interest and Inc.	3.81%	44.296	47.924	48.703	51.233	92.220	99.936	70.29%
6 Insurance Tax & License Fees	3.38%	39.334	40.810	42.666	44.050	80.144	86.716	73.44%
7 Coal Trust Interest	3.37%	39.195	39.117	36.401	36.276	78.312	72.677	76.08%
8 US Mineral Royalty	1.65%	19.243	27.845	21.756	20.474	47.088	42.230	77.61%
9 All Other Revenue	1.76%	20.488	48.460	107.715	22.634	68.948	130.349	82.35%
10 Tobacco Settlement	2.99%	34.804	15.677	18.925	19.147	50.481	38.072	83.73%
11 Telecommunications Excise Tax	0.55%	6.366	19.619	20.253	21.113	25.985	41.366	85.23%
12 Video Gambling Tax	1.19%	13.851	20.742	41.518	45.192	34.593	86.710	88.39%
13 Treasury Cash Account Interest	1.38%	16.088	17.703	14.671	14.102	33.791	28.773	89.43%
14 Estate Tax	1.64%	19.039	19.691	17.118	10.097	38.730	27.215	90.42%
15 Oil & Natural Gas Production Tax	0.98%	11.363	14.188	12.407	11.984	25.551	24.391	91.31%
16 Motor Vehicle Fee	1.01%	11.716	12.954	25.182	25.692	24.670	50.874	93.15%
17 Public Institution Reimbursement	0.97%	11.345	11.755	12.521	12.932	23.100	25.453	94.08%
18 Coal Severance Tax	0.82%	9.502	8.918	9.073	9.058	18.420	18.131	94.74%
19 Liquor Excise & License Tax	0.62%	7.172	7.534	9.661	10.220	14.706	19.881	95.46%
20 Cigarette Tax	0.73%	8.464	8.222	8.057	7.889	16.686	15.946	96.04%
21 Investment License Fee	0.46%	5.390	6.081	6.580	7.119	11.471	13.699	96.54%
22 Lottery Profits	0.50%	5.841	6.197	6.249	6.178	12.038	12.427	96.99%
23 Liquor Profits	0.51%	5.900	5.659	5.831	5.845	11.559	11.676	97.41%
24 Nursing Facilities Fee	0.52%	6.055	5.533	5.547	5.575	11.588	11.122	97.82%
25 Foreign Capital Depository Tax	0.00%	0.000	0.000	0.000	0.000	0.000	0.000	97.82%
26 Electrical Energy Tax	0.41%	4.829	4.562	4.644	4.664	9.391	9.308	98.15%
27 Metalliferous Mines Tax	0.23%	2.703	4.063	4.706	4.553	6.766	9.259	98.49%
28 Highway Patrol Fines	0.35%	4.028	4.096	4.191	4.262	8.124	8.453	98.80%
29 Public Contractors Tax	0.19%	2.162	1.887	2.441	2.478	4.049	4.919	98.98%
30 Wholesale Energy Tax	0.16%	1.895	3.500	3.568	3.614	5.395	7.182	99.24%
31 Tobacco Tax	0.17%	2.017	2.137	2.265	2.400	4.154	4.665	99.41%
32 Driver's License Fee	0.20%	2.333	2.165	2.178	2.194	4.498	4.372	99.57%
33 Railroad Car Tax	0.18%	2.101	1.665	1.688	1.718	3.766	3.406	99.69%
34 Wine Tax	0.09%	1.017	1.059	1.300	1.357	2.076	2.657	99.79%
35 Beer Tax	0.03%	0.370	0.386	2.885	3.013	0.756	5.898	100.00%
36 Telephone License Tax	0.30%	3.491	0.000	0.000	0.000	3.491	0.000	100.00%
37 Long Range Bond Excess	0.01%	0.101	0.000	0.000	0.000	0.101	0.000	100.00%
Total General Fund	100.00%	<u>\$1,163.641</u>	<u>\$1,213.719</u>	<u>\$1,405.528</u>	<u>\$1,347.036</u>	<u>\$2,377.360</u>	<u>\$2,752.564</u>	100.00%
* For Fiscal 2000								

Figure 9 shows the revenue contribution to the general fund account by the most significant revenue components. During the 2003 biennium, over 66 percent of total general fund revenue will come from income, property, and vehicle taxes, while about 7 percent will be generated from investment earnings. Natural resource taxes are estimated to produce about 2 percent of total general fund revenue during the 2003 biennium. The information shown in Figure 9 illustrates the significant dependence the state has on income, property, and vehicle taxes to fund general government operations. In addition, Figure 5 shows the general fund account will receive an estimated \$201 million in the 2003 biennium from investment earnings. Although these revenues are due to the investment by the state of taxpayer dollars, these monies can be viewed as taxpayer savings or relief. Without these revenues, the state would either have to cut services, increase other revenues, or do a combination of both.



Total general fund revenues for the 2003 biennium are projected to increase 15.8 percent over the 2001 biennium projections. The comparative change by major revenue category is shown at the bottom of Figure 9. Included in this increase is \$277.2 million of additional revenue due to the enactment of HB 124, the local government funding bill, and \$75 million due to the enactment of SB

495, the public schools mineral rights purchase legislation. Excluding the increases resulting from these two bills, the biennial general fund increase is 1.0 percent.

GENERAL FUND REVENUE ASSUMPTIONS

General fund revenues in fiscal 2000 were above the estimate mainly because of strong growth in individual income tax collections and unanticipated one-time corporation income taxes.

The rate of growth in individual income tax revenues is expected to slow in fiscal 2001 when compared to fiscal 1999 and 2000, and increase about 5 percent in fiscal 2002 and 2003. Wage and salary income grew by only 4.3 percent in calendar 1999 compared with the rapid growth of 5.7 percent in calendar 1998. Growth in wage and salary income in calendar 2000 is expected to be 5.6 percent due to increased employment in construction, services and trade. However, growth in wage and salary income is expected to slow in calendar 2001 through 2003 to slightly above 4.5 percent per year, as a slowdown in corporate and business profits reduces hiring, and as inflation moderates.

Growth in capital gain income is also likely to moderate during the 2003 biennium. The rising stock market in the latter half of the 1990's provided a boost to state and national income tax revenues derived from capital gains. The stock market in calendar 2000 has been volatile, but is essentially no higher in November than it was in January. The outlook by many national forecasting firms for growth in the S&P 500 index in the next two years is for a slowly increasing market with high volatility where losses and gains are equally probable.

Corporate profits are expected to range from stable to a modest increase, while interest earnings will be down slightly because cash balances available for investment will be stable to declining. Revenues from natural resource taxes will be up due to higher prices for oil and natural gas. Finally, property tax revenue will decrease due to legislation enacted by Fifty-sixth Legislature.

Corporate profits during the 2001 biennium had a large one-time increase from the sale of Montana Power Company electrical generation assets and other significant one-time transactions. All but the telecommunications assets of the Montana Power Company have been offered for sale and buyers announced. These sales may produce another windfall in corporate taxes in the future, but their level and timing is unknown. The legislative estimates do not include revenue for the potential impact of these sale events.

Property tax revenues from real estate and vehicles will be down during the 2003 biennium, after remaining flat during the 2001 biennium. Most of this moderation and decline are the result of property tax cuts enacted by the Fifty-sixth Legislature. The tax rate cuts included moderate reductions for residential and commercial real estate, agricultural land, and timberland, which offset the phase-in of the 1997 reappraisal values. In addition, large tax rate cuts were authorized for business equipment, electrical generation, and telecommunications property. To partially offset these property tax revenue declines, the Fifty-sixth Legislature increased tax rates on wholesale sales of electrical energy and retail sales of telecommunications services.

Tax rate cuts for light vehicles were also enacted by the Fifty-sixth Legislature. Tax rates on light vehicles were reduced by 30 percent, and the legislature reallocated the remaining revenue almost entirely to local governments and schools. In November 2000, the populace voted on and approved an initiative to change the levy on light vehicles from a tax to a registration fee.

Economic conditions and the impact on state revenues are fairly certain for fiscal 2001. Current prices for oil, natural gas, and cattle are up relative to their levels in calendar 1998 and 1999. Oil and natural gas prices are expected to retract in calendar 2001. Business revenues and corporate revenues will be under pressure as the slowdown in the national economy continues to occur. In order for businesses and corporations to maintain net incomes, it is likely that business expansion will moderate, which should result in reduced hiring.

The outlook for the 2003 biennium is much less certain. The futures market for oil and natural gas prices has built-in steady price declines. Average national oil prices are expected to fall to between \$20 and \$22 per barrel in calendar 2002 and 2003, down from \$29 per barrel in 2000. Metals prices are expected to remain stable.

NON-GENERAL FUND REVENUE ESTIMATES

Figure 10 shows estimates for selected non-general fund revenue for fiscal years 2001, 2002, and 2003. These estimates were adopted because of their importance in the budgeting process.

Figure 10 Non-General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of Total *	Adj. Actual Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 00-01	Estimated Fiscal 02-03	Cumulative % of Total
1 Arts Trust Interest	0.07%	\$0.254	\$0.301	\$0.317	\$0.331	\$0.555	\$0.648	0.11%
2 Capital Land Grant Interest and Income	0.53%	1.914	0.425	0.570	0.889	2.339	1.459	0.26%
3 Deaf & Blind Interest and Income	0.07%	0.248	0.243	0.249	0.254	0.491	0.503	0.09%
4 Diesel Tax	15.63%	56.455	57.584	59.444	61.206	114.039	120.650	21.37%
5 Federal Forest Receipts	1.74%	6.283	7.437	10.714	10.856	13.720	21.570	3.82%
6 Gasoline Tax	36.15%	130.552	127.259	128.640	129.314	257.811	257.954	45.70%
7 GVW and Other Fees	9.75%	35.211	33.658	27.908	27.693	68.869	55.601	9.85%
8 Lodging Facility Use Tax	3.08%	11.120	11.621	12.144	12.692	22.741	24.836	4.40%
9 Parks Trust Interest	0.29%	1.051	1.091	1.123	1.152	2.142	2.275	0.40%
10 Pine Hills Interest and Income	0.08%	0.300	0.308	0.315	0.325	0.608	0.640	0.11%
11 Property Tax: 6 Mill	3.65%	13.189	12.484	11.889	12.092	25.673	23.981	4.25%
12 Property Tax: 9 Mill	2.35%	8.481	6.585	6.687	6.854	15.066	13.541	2.40%
13 Regional Water Trust Interest	0.00%	0.032	0.473	0.775	1.078	0.505	1.853	0.33%
14 Resource Indemnity Tax	1.88%	6.793	3.140	2.904	2.809	9.933	5.713	1.01%
15 RIT Trust Interest	2.54%	9.184	7.467	7.582	7.609	16.651	15.191	2.69%
16 Tobacco Trust Interest	0.00%	0.000	0.225	1.044	1.983	0.225	3.027	0.54%
17 TSE Trust Interest	1.42%	5.123	6.173	7.088	7.952	11.296	15.040	2.66%
Total Non-General Fund	100.00%	\$286.190	\$276.474	\$279.393	\$285.089	\$562.664	\$564.482	100.00%

* For fiscal 2000

A complete summary of each general fund and non-general fund revenue source is contained in Volume 2 – “Revenue Estimates”. Each summary provides information on the particular source of revenue including description, applicable tax or fee rates, and distribution mechanisms. A legislation impact table (if applicable) is shown summarizing all bills that impact the particular source of revenue.

SUMMARY OF TAX POLICY

Although certain legislation enacted by the 2001 legislature impacted taxes, these changes were not major in scope nor do they indicate a major change in the state's tax policy. Of the seven bills described below, five change a taxpayer's taxable income through changes in tax credits or exemptions. Of the other two, one increases tax revenue through more stringent reporting requirements, and the other phases-in vehicle tax decreases over a three-year period. Figure 11 shows the general fund impact, by source, for each bill over the three-year period, fiscal 2001 through 2003. The following narrative discusses the tax impact of each bill.

Figure 11 Select Tax Policy Legislation Passed by 57th Legislature Estimated Total General Fund Impact					
Bill Number and Short Title	Revenue Source	Fiscal 2001	Fiscal 2002	Fiscal 2003	
<u>Tax Liability Changes</u>					
HB0377 Revise qualified endowment tax credit -- 6-year extension	Corporation tax	\$0	\$0	(\$269,000)	
HB0377 Revise qualified endowment tax credit -- 6-year extension	Income tax	0	0	(5,196,000)	
SB0245 Montana farm and ranch risk management account	Income tax	0	0	(700,000)	
SB0494 Revise retail telecommunications excise tax	Telecommunications	(1,904,000)	1,497,000	2,000,000	
SB0506 Encourage alternative energy and electrical generation	Income tax	0	0	(746,164)	
SB0506 Encourage alternative energy and electrical generation	Other	0	(148,819)	(148,819)	
SB0508 Encourage electrical generation in Montana -- property tax incentive	Property-40 mill	0	0	(111,989)	
SB0508 Encourage electrical generation in Montana -- property tax incentive	Property-55 mill	0	0	(153,985)	
Total		(\$1,904,000)	\$1,348,181	(\$5,325,957)	
<u>Other Changes</u>					
HB0143 Revise income tax laws for pass-through entities	Income tax	\$0	(\$115,000)	\$1,185,000	
HB0247 Phase-in reduction of fees in lieu of tax for heavy trucks	Vehicle tax	0	0	(263,279)	
Total		\$0	(\$115,000)	\$921,721	
Grand Total		(\$1,904,000)	\$1,233,181	(\$4,404,236)	

CHANGES IN TAX LIABILITY

House Bill 377 - Legislation allowing a credit against corporation license taxes and individual income taxes for contributions to qualified endowments was to terminate December 31, 2001. House Bill 377 extends the termination date for the credit to December 31, 2007, thus reducing general fund revenue as compared to current law. It also: 1) decreased the amount of contributions from individual taxpayers that are eligible for the credit from 50 percent to 40 percent; and 2) decreased the amount of contributions from corporate taxpayers that are eligible for the credit from 50 percent to 20 percent.

Senate Bill 245 - Farm and ranch risk management trust accounts may be established for eligible agricultural businesses as a risk management tool for an individual or family farm corporation. Deposits to the account can be excluded from adjusted gross income, not to exceed the lesser of 20 percent of the taxpayer's net agricultural income or \$20,000 a year. Deposits to an account must be distributed within five years from the time they were made and are considered taxable income at that time. The legislation terminates when the director of the Department of Revenue certifies that a similar program is enacted at the federal level.

Senate Bill 494 - The telecommunications excise tax credit for investments in advanced telecommunications infrastructure improvements is suspended for the 2003 biennium. In addition, the legislation clarifies certain charges that can be taxed. Although the clarification increases the Department of Revenue's ability to fully collect the tax beginning in fiscal 2002, it lessens the ability to collect the tax through compliance efforts in fiscal 2001.

Senate Bill 506 - The legislation addresses alternative energy by offering property and income tax incentives and establishing a revolving loan account to fund alternative energy sources. An exemption from property taxes is allowed for machinery and equipment used in qualifying energy generation facilities built after July 1, 2001. The Department of Revenue estimates that \$122 million in new taxable value for equipment will be exempt from taxation in the 2003 biennium. Since this amount is an exemption for equipment not anticipated in House Joint Resolution 2, there is no reduction to current law general fund property tax revenue. The legislation also expands the following credits, thus reducing general fund revenue by the indicated amount: 1) energy-conservation credit on residential and commercial buildings (\$469,000); 2) geothermal system credit (\$199,070); 3) nonfossil generation credit (\$75,500); and 4) commercial or net metering system alternative energy investment credit (\$2,594). The legislation also exempts wind turbines erected on state land from the wholesale energy tax and allows local governments to create special improvement districts to purchase and manage alternative energy production facilities. Penalties for air quality violations that previously were deposited to the general fund (\$148,819) are now deposited to the revolving loan account to fund alternative energy sources (see "All Other Revenue" in Volume 2, page 123). The Department of Environmental Quality administers this account to provide loans to individuals and small businesses to build alternative energy systems and to generate energy for their own use and for net metering.

Senate Bill 508 - The legislation provides for a property tax exemption of new electrical generation facilities for a five or ten year period following commencement of construction of the facility. The exemption for coal-fired steam and water driven turbines is ten years and is five years for facilities powered by oil or natural gas. The facility must offer at least 50 percent of its power on a cost based rate (cost + 12 percent) for a period of twenty years from the date of the facility's completion. The loss to the state general fund is expected to be \$266,000 in fiscal 2003 for both the 40 and 55 mills property tax, under the assumption that a plant to be built by Northwest Public Services would have been built anyway. The legislation also provides for the collection by county governments of an ongoing infrastructure impact fee to be paid for by the electrical generation facility's owners. The impact fee for the first two years of operation may not exceed 0.75 percent of the facilities total cost of construction. The impact fee for facilities not powered by oil or natural gas may not exceed 0.1 percent of the facility's cost for the next four years, and may not exceed 0.08 percent for the final four years. If the facility uses oil or natural gas, the impact fee may not exceed 0.1 percent of the facility cost in the final three years of the five-year exemption period. It is expected that the impact fee may generate up to \$1.1 million for local governments in fiscal 2003. The impact fee revenue must be shared with the local school district, but the method of determining the division of the proceeds is not specified. The receiving governments must deposit the revenue in a new electrical generation impact fund and may spend the money for any purpose allowed by law.

OTHER

House Bill 143 - The legislation increases individual income taxes by requiring S corporations, partnerships, limited liability companies, and other pass-through entities to include their distributive share of income for income tax purposes. The legislation also provides a credit to resident taxpayers for a portion of income taxes paid to another state or country by an S corporation of which the resident is a shareholder.

House Bill 247 - Fees in lieu of property taxes on buses, trucks greater than 1 ton, and truck tractors are reduced in half over a three-year period beginning January 1, 2003. With passage of House Bill 124, this revenue is deposited to the general fund. Therefore, general fund revenues are reduced beginning fiscal 2003.



APPROPRIATIONS SUMMARY

INTRODUCTION

This section summarizes the major legislative appropriations for ongoing costs of operating state government. HB 2 (the general appropriations act) is the primary vehicle used by the legislature to provide these appropriations. However, two major pieces of legislation passed by the 2001 legislature are either not included in the HB 2 numbers or have a direct impact on the HB 2 appropriation, and result in HB 2 being the vehicle for less on-going general fund appropriations in the 2003 biennium than in the previous biennium, with more appropriations being made in statute (and therefore not subject to regular, biennial review).

?? HB 124, the local government funding bill, made a number of changes in the way local governments are funded. There are three primary impacts to HB 2:

- ~~HB~~ Elimination of the local government reimbursement in the Department of Revenue appropriation, replacing it with a statutory appropriation. This reduced the HB 2 general fund budget by \$70.6 million from the 2001 biennium level. The statutory appropriation is about \$164 million in the 2003 biennium (partially offset by increases in general fund revenue)
- ~~HB~~ Replacement of certain state special revenue mill levy funds with general fund in the Department of Public Health and Human Services for various welfare functions. Total general fund added was \$28.6 million, while state special revenue was reduced by \$27.3 million (the primary difference results from funding portions of the pay plan)
- ~~HB~~ Provision of general fund costs of state assumption of the district courts in a statutory appropriation (up to \$25 million), with administrative costs (over \$0.8 million) added to HB 2

?? HB 13, the pay plan bill, includes \$31.1 million general fund and \$69.8 million total funds to implement the 2003 biennium pay plan. These figures are not included in HB 2

While these actions reduce general fund in HB 2 due to the manner in which they are provided, HB 2 also contains one-time-only spending authority of \$75.0 million in the Department of Natural Resources and Conservation that exists to expend a loan from the permanent coal tax trust to purchase mineral rights. This expenditure, therefore, tends to inflate the totals in the bill.

When examining these figures, please note that general fund and total funds include \$812,778 general fund appropriated by the legislature in HB 2 to the Department of Revenue contingent upon passage of SB 512 (imposing an energy excess revenue tax). This bill did not pass.

APPROPRIATIONS HIGHLIGHTS

The following summarizes certain appropriations highlights in HB 2. The highlights are briefly summarized below and discussed in more detail in the sections that follow. Figure 12 not only shows the total appropriations by category in the 2003 biennium, but compares this total to the 2001 biennium

to provide a total dollar (or total in the case of FTE) and percentage increase over the previous biennium. The table also shows the percent of the total increase provided to the various components, and the resulting percent that component is of total budget. (For example, general fund increased by \$157.6 million, or 7.3 percent over the 2001 biennium. Of the total fund increase of \$851.7 million, general fund is 18.5 percent, and now constitutes 39.4 percent of the total budget.)

Figure 12 2001 to 2003 Biennium Selected Appropriations Highlights					
Factor	2003 Biennium Dollar (Total) Amount	2001 - 2003 Dollar (Total) Increase	2001 - 2003 Percent Increase	Percent of Increase	Percent of Budget
FTE	10,915.69	488.73	4.7%	-	-
<u>Fund Type</u>					
General Fund	\$2,318,845,964	\$157,625,279	7.3%	18.5%	39.4%
State Special	783,657,292	18,709,600	2.4%	2.2%	13.3%
Federal	2,757,624,798	668,828,615	32.0%	78.5%	46.8%
Other	<u>28,727,636</u>	<u>6,571,563</u>	29.7%	0.8%	0.5%
Total	<u>\$5,888,855,690</u>	<u>\$851,735,057</u>	16.9%	-	-
<u>General Fund</u>					
Human Services	\$536,062,110	\$74,712,437	16.2%	47.4%	23.1%
K-12 Education	1,003,742,929	26,692,068	2.7%	16.9%	43.3%
Higher Education	273,566,355	21,997,881	8.7%	14.0%	11.8%
Corrections	194,183,849	14,590,432	8.1%	9.3%	8.4%
All Other	<u>311,290,721</u>	<u>19,632,461</u>	6.7%	12.5%	13.4%
Total	<u>\$2,318,845,964</u>	<u>\$157,625,279</u>	7.3%	-	-
<u>Total Funds</u>					
Human Services	\$2,053,929,949	\$450,774,766	28.1%	52.9%	34.9%
K-12 Education	1,223,983,435	83,697,034	7.3%	9.8%	20.8%
Higher Education	392,457,752	32,782,041	9.1%	3.8%	6.7%
Corrections	200,757,796	16,070,486	8.7%	1.9%	3.4%
All Other	<u>2,017,726,758</u>	<u>268,410,730</u>	15.3%	31.5%	34.3%
Total	<u>\$5,888,855,690</u>	<u>\$851,735,057</u>	16.9%	-	-

- ?? General fund increases by \$157.6 million, or 7.3 percent, from the 2001 biennium. Education and human services comprise over 78 percent of this increase. Human services, education, and corrections account for almost 88 percent of the growth. With very few exceptions, the increase in general fund is to maintain or expand existing programs, rather than to start new programs
- ?? Total funds increase \$851.7 million, or 16.9 percent, from the 2001 biennium level. Growth in federal funds is \$668.8 million, or over 78 percent of the total increase in funds. Human services, K-12 education, and transportation are over 76 percent of the total growth
- ?? Human services show both the highest general fund dollar and percentage growth (\$74.7 million and 16.2 percent), and the highest total funds dollar and percentage growth (\$450.8 million and 28.1 percent)

- ?? Over half of all general fund expenditures in HB 2 (55.1 percent) support education (although this percentage is declining due to a combination of higher growth in other areas and falling enrollments). Human services add another 23.1 percent. Over 78 percent of all government general fund spending contained in HB 2 goes to support those three areas. With corrections added, the total increases to almost 88 percent
- ?? The legislature added 488.73 FTE (308.53 FTE if accounting changes and impacts of past legislation are removed). Of the adjusted total, over 55 percent were added to the Departments of Public Health and Human Services and Corrections (for a further discussion, see “State Employees – FTE Summary” on page 106 of this volume)
- ?? Due to the passage of HB 124, which, among other things, provides a statutory appropriation for many local government reimbursements, and if the one-time provision of authority to spend a loan from the permanent coal tax trust of \$75.0 million is not included, HB 2 now comprises about 82 percent of all state general fund appropriations, compared to almost 92 percent in the 2001 biennium. This increase in statutory appropriations means that fewer appropriations as a percentage of total state expenditures are regularly reviewed and authorized every two years
- ?? In a trend observed for several biennia, federal funds continue to comprise a greater percentage of the state budget, primarily due to continued increases in human services costs (and in the percentage of those costs borne by the federal government) and highway construction

The following sections examine appropriations from two perspectives:

1. fund type; and
2. functional area of government.

APPROPRIATIONS BY FUND TYPE

This section compares appropriations made by the legislature by fund type: 1) general fund; 2) state special revenue; 3) federal; and 4) other.

Figure 13 shows a breakdown of HB 2, by source of funding. As shown, federal funds are the largest single funding source.

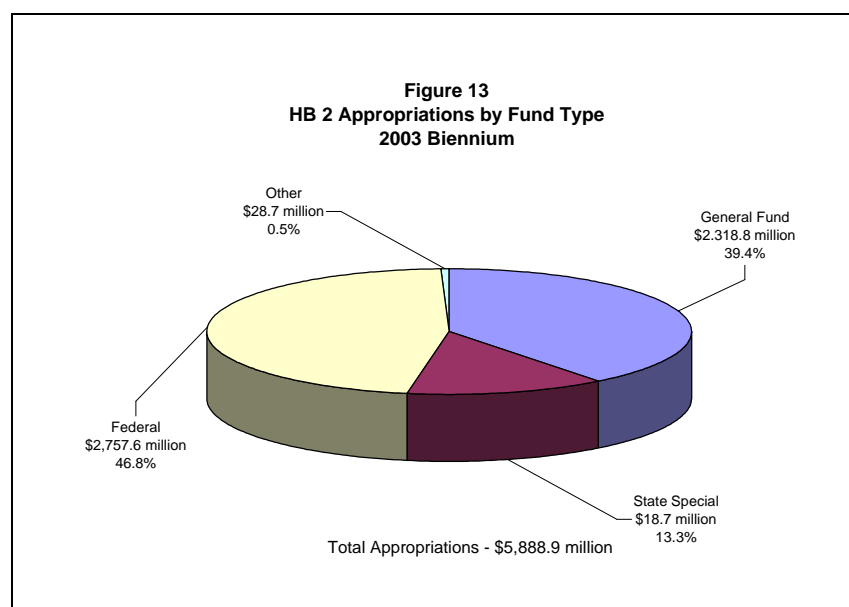
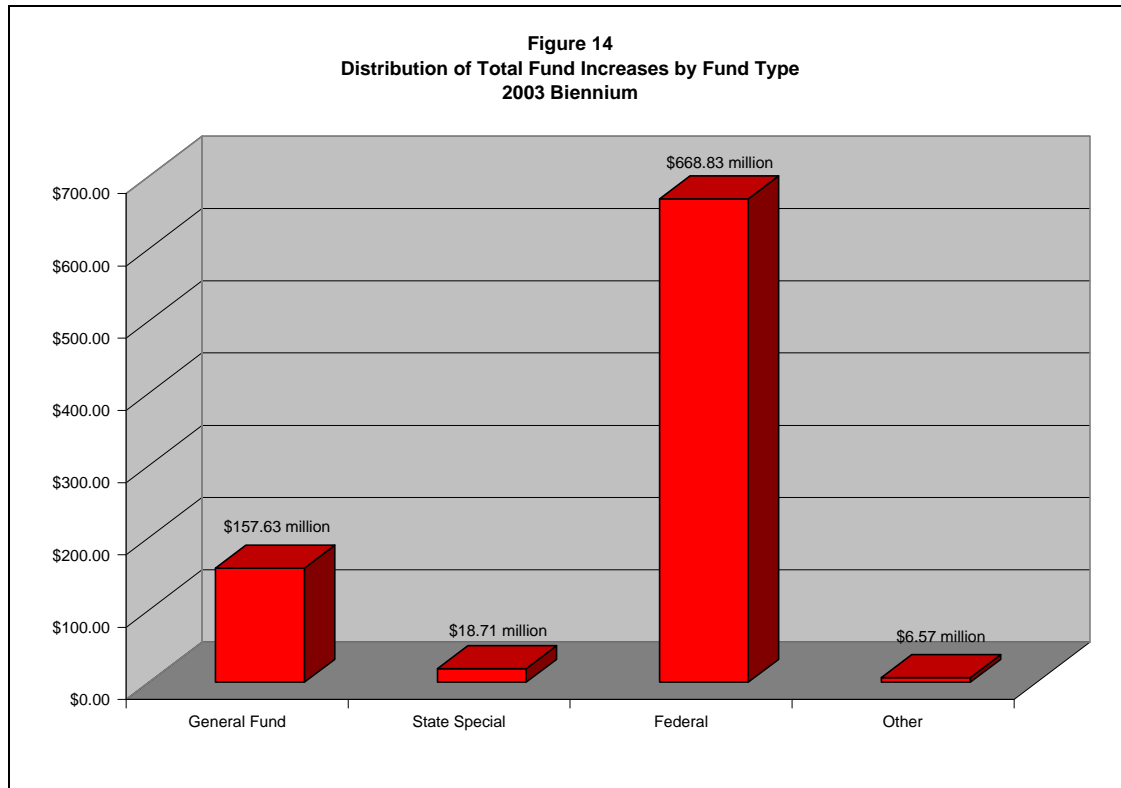


Figure 14 shows what percent of total funds growth from the 2001 to the 2003 biennia are attributable to each fund type. As shown, federal funds increased by \$668.8 million, or 78.5 percent of the total increase of \$851.7 million. As a result, federal funds increased as a share of the budget from 41.5 percent in the 2001 biennium to 46.8 percent in the 2003 biennium.



GENERAL FUND

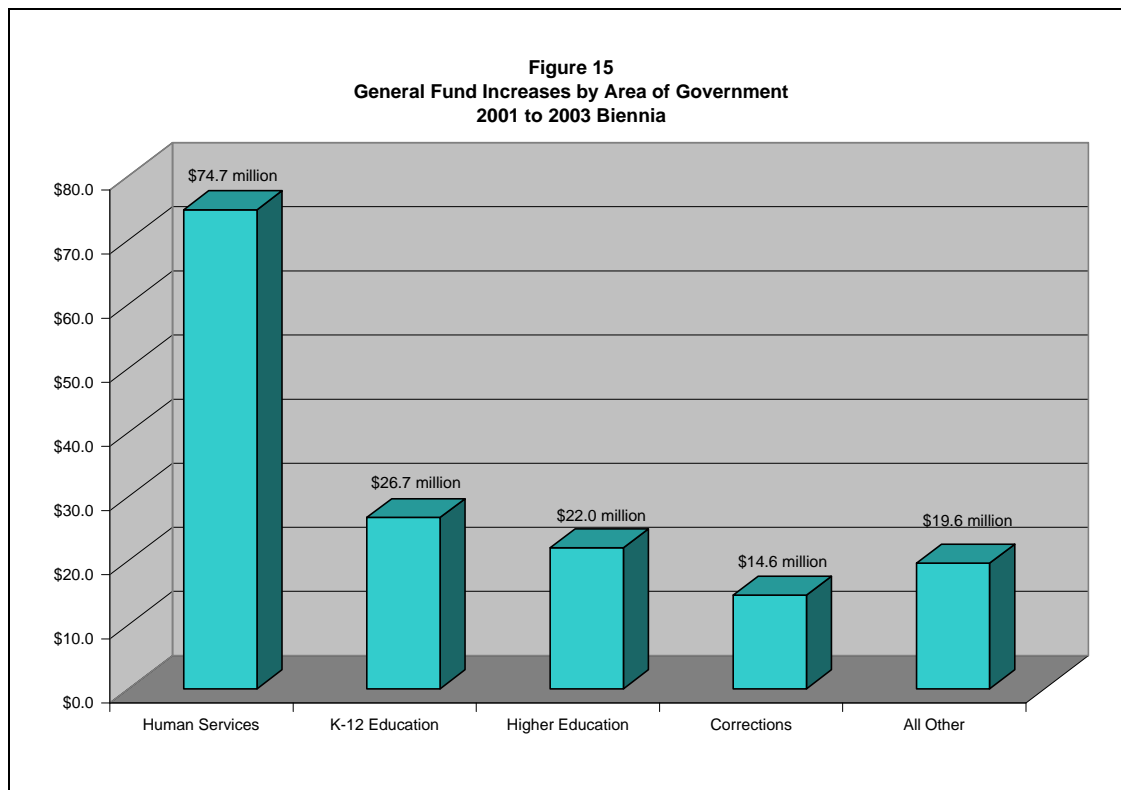
General fund increases by \$157.6 million (7.3 percent) to \$2,318.8 million in the 2003 biennium. General fund in HB 2 represents 82 percent of all general fund appropriated by the legislature. Of this increase, \$75.0 million, or almost half, represents one-time-only spending authority for a loan from the permanent coal tax trust to purchase mineral rights for the benefit of schools. Simultaneously, statutory appropriations replaced a significant amount of general fund in HB 2, and costs of state assumption of the district courts do not appear in HB 2.

The funding priorities of the legislature in HB 2, as measured by provision of increased funding, include the following. As stated earlier, the legislature, with few exceptions, funded existing programs rather than new programs.

- ?? Maintenance of Medicaid services for current recipients
- ?? Provision of human services provider rate increases, and increased wages for direct care workers
- ?? Provision of increased support for K-12 education, and establishment of a dedicated revenue source through a loan from the permanent coal tax trust to purchase mineral rights
- ?? Maintenance of additional corrections staff and provision of secure facilities and community corrections for the anticipated population
- ?? Replacement of reduced 6-mill levy in the university system and increased support per student

- ?? Maintenance of current state employee (including university system employees) personal services costs at the statutory level (with provision of vacancy savings), with elimination of funding in the next biennium for certain FTE vacant for an extended period of time, and a global reduction in personal services to effect higher vacancy savings
- ?? Expansion of human services staff, including staff at Montana State Hospital and to transition people from the state facilities for the developmentally disabled
- ?? Establishment of an Office of Economic Development

The following figure shows the allocation of general fund increases by functional area of government.



Human services, education, and corrections received 87.6 percent of the total general fund increase provided, or \$138 million. Each of these areas is discussed in more detail in the “Appropriation by Functional Area of Government” section.

- ?? The Department of Public Health and Human Services was increased by \$74.7 million, or 16.2 percent. Primary areas of increase are to maintain services to existing eligible persons, provide increased compensation to service providers and direct care workers, expand the Children’s Health Insurance Program, and implement HB 124. General fund was offset by the establishment an intergovernmental transfer program, reducing in the Mental Health Services Plan, and replacing general fund with certain federal and state special revenues, including TANF and alcohol tax
- ?? K-12 education increased two ways: 1) additional BASE aid to implement schedule increases in HB 121; and 2) a flexible spending account of \$5.0 million. Within the Department of Natural Resources and Conservation, \$75.0 million general fund spending authority was provided to allow expenditure of a loan from the permanent coal tax trust to purchase mineral rights for the benefit of schools

- ?? Higher education increased \$22.0 million, or 8.7 percent. Two main adjustments were made: 1) replacement of lost 6 mill levy revenue due to previous legislative action and the passage of HB 124; and 2) an additional \$100 per student in fiscal 2002 and an additional \$100 per student in fiscal 2003. The remaining higher education increases are primarily to fund current staff
- ?? Corrections increases \$14.6 million, or 8.1 percent, through maintenance of staff and a pay exception added by Governor Racicot during the 2001 biennium, the addition of contract beds for anticipated male and female populations, and additional pre-release beds
- ?? The primary increase in all other areas of government was the provision of \$75.0 million in spending authority to the Department of Natural Resources and Conservation for a loan from the permanent coal tax trust to purchase mineral rights to benefit schools

These increases are partially offset by a reduction of \$67.0 million in the Department of Revenue, primarily due to removal of reimbursements to local governments from HB 2 and its replacement with a statutory appropriation per HB 124.

STATE SPECIAL REVENUE

State special revenue increases by \$18.7 million, or 2.4 percent. Because this rate of growth is lower than either general fund or federal funds, state special revenue continues to become a smaller share of the total HB 2 budget.

The overall increase in state special revenue is due to large increases in some areas, partially offset by decreases in others.

There are four primary areas of increase:

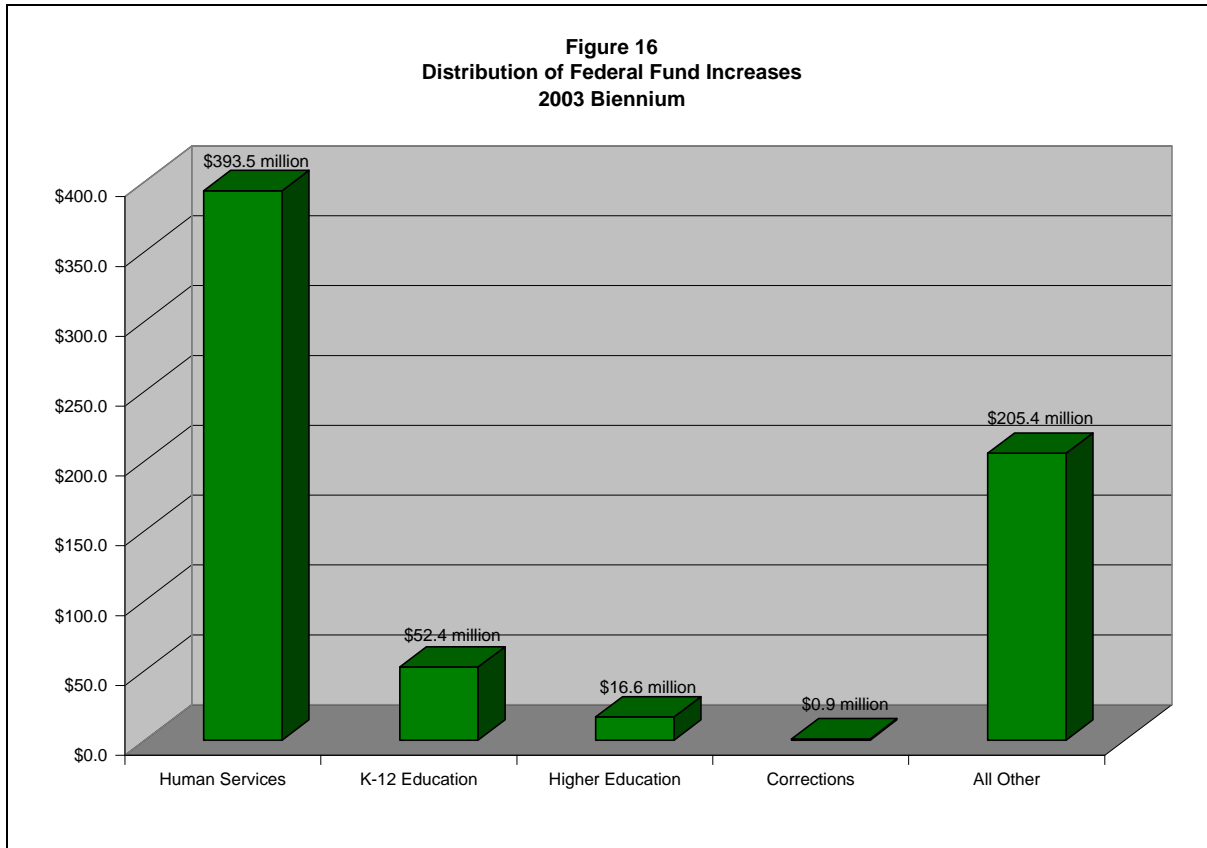
- ?? The Department of Transportation (\$23.0 million) to provide for an accounting change, and to expend fuel taxes for various highways related activities, including match funds for increased federal support and assumption of maintenance of secondary roads
- ?? The Department of Natural Resources and Conservation (\$8.7 million) for state water rehabilitation projects and other operating adjustments
- ?? The Department of Fish, Wildlife, and Parks (\$6.2 million) for a variety of new and expanded programs
- ?? The Office of Public Instruction to expend from the flexible spending account created in SB 390

The four largest decreases are the following:

- ?? \$27.3 million in the Department of Public Health and Human Services and \$0.4 million in the Montana University System due to the passage of HB 124. This bill discontinues the deposit of certain revenues into state special accounts and deposits them in the general fund, increasing general fund appropriations and reducing state special appropriations.
- ?? \$19.5 million in the Department of Environmental Quality due to a reduction in authority for bond forfeitures, partially offset by the addition of \$4.0 million for hard rock mining bonds
- ?? \$5.8 million in the Montana University System to replace reductions in 6 mill levy revenue due to actions by the 1999 legislature
- ?? \$6.3 million county funds in the Department of Public Health and Human Services for intergovernmental transfers

FEDERAL REVENUE

Federal funds increase by \$668.9 million, or 32.0 percent. Figure 16 shows the allocation of this increase by functional area of government. Of the total, increases in the Department of Public Health and Human Services, the Office of Public Instruction, the Department of Transportation, and the Department of Commerce account for over 87 percent of the increase.



As stated earlier, this large increase has further enlarged the share of state government expenditures appropriated in HB 2 funded by the federal government. Federal funds are generally very specialized, and can only be used for the specific purposes for which the provision of funding has been made, such as Medicaid expenditures, housing, and highways construction. Funds received by the Office of Public Instruction are also very specialized, as the federal government provides grants to pursue specific goals, such as providing educational opportunity to special education and low-income students.

A portion of the overall increase in federal funding is due to accounting changes that require certain federal funds that had not been appropriated in previous biennia be appropriated in the 2003 biennium. The major accounting changes are:

- ?? Food stamp benefits in the Department of Public Health and Human Services -- \$103.3 million
- ?? Medicaid drug, and Women, Infants, and Children formula rebates in the Department of Public Health and Human Services -- \$31.4 million
- ?? Defaulted student loan dollars at gross, rather than net, value in the Guaranteed Student Loan Program in the Montana University System -- \$14.5 million
- ?? Contractor accruals in the Department of Transportation -- \$23.5 million

Primary changes in the remaining increases are:

- ?? The Department of Public Health and Human Services for Medicaid caseload increases and a more favorable federal matching rate, FAIM Phase II-R, the intergovernmental transfer program, and provider rate increases -- \$362.1 million
- ?? The Office of Public Instruction, primarily in increased and new federal grants to schools for a variety of purposes, including school facility improvements -- \$52.4 million
- ?? The Department of Transportation, for continuing higher federal funds for highways construction, maintenance, administration, and planning; and due to a federal sanction associated with Montana's lack of compliance with federal open container and repeat drinking and driving sentencing requirements -- \$71.0 million
- ?? The Department of Commerce, primarily for expected increases in federal Section 8 housing funds -- \$62.2 million

OTHER FUNDS

Other funds consist of appropriated proprietary funds, capital project funds, and expendable and nonexpendable trust funds. Other funds increase \$6.6 million to \$28.7 million, or 29.7 percent, primarily for the following:

- ?? Liquor enterprise funds to support a portion of gambling and liquor control in the Department of Justice
- ?? Expansions in the Montana State Lottery
- ?? Use of capital projects funds to support a portion of capitol complex rental costs

APPROPRIATIONS BY FUNCTIONAL AREA OF GOVERNMENT

The following discusses the increase in funding by examining changes in functional area of government. The areas highlighted are: 1) human services, which consists of the Department of Public Health and Human Services; 2) K-12 Education, which is all expenditures of the Office of Public Instruction (approximately 99 percent of which are direct aid to schools); 3) higher education, which includes all expenditures of the Montana University System and the Commissioner of Higher Education; 4) corrections, which is all expenditures of the Department of Corrections; and 5) all other. In selected instances, specific portions of "all other", such as transportation, are highlighted.

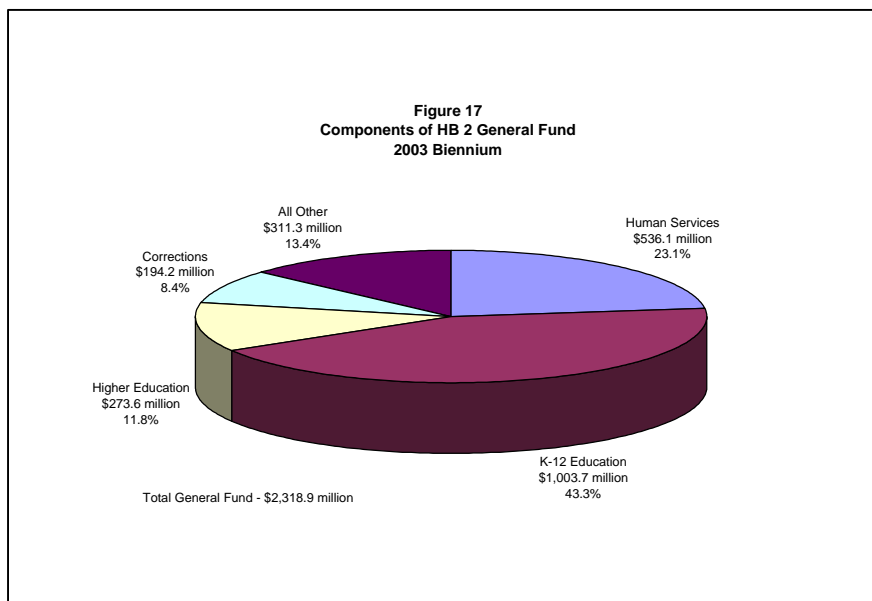


Figure 17 shows the distribution of general fund and Figure 18 shows the distribution of total funds by functional area of government. As shown, general fund is dominated by education, human services, and corrections, while human services and "other" dominate total funds. This change in emphasis is due to the significant general fund funding of K-12 and higher education and corrections, and the significant federal and state special revenue presence in human services and transportation.

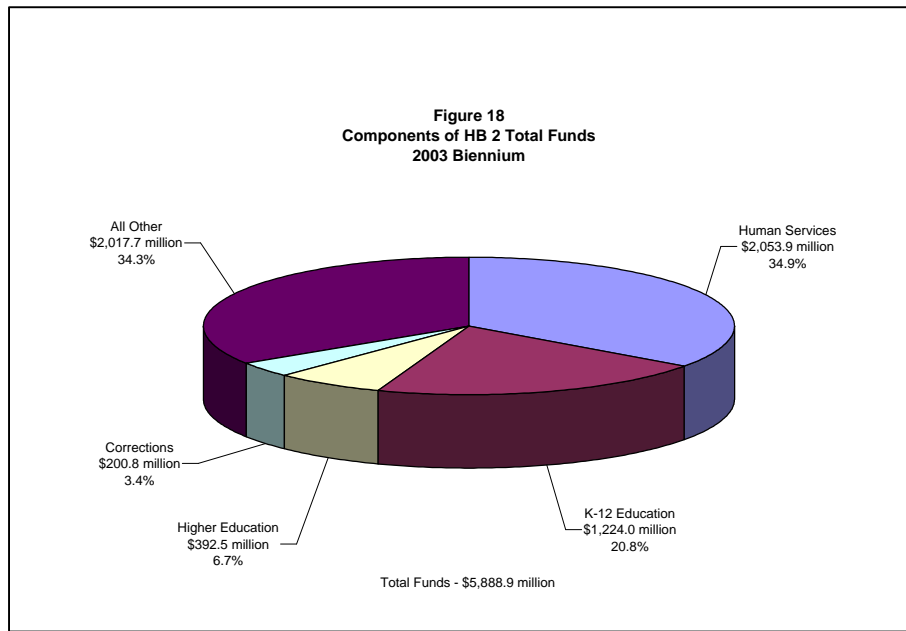
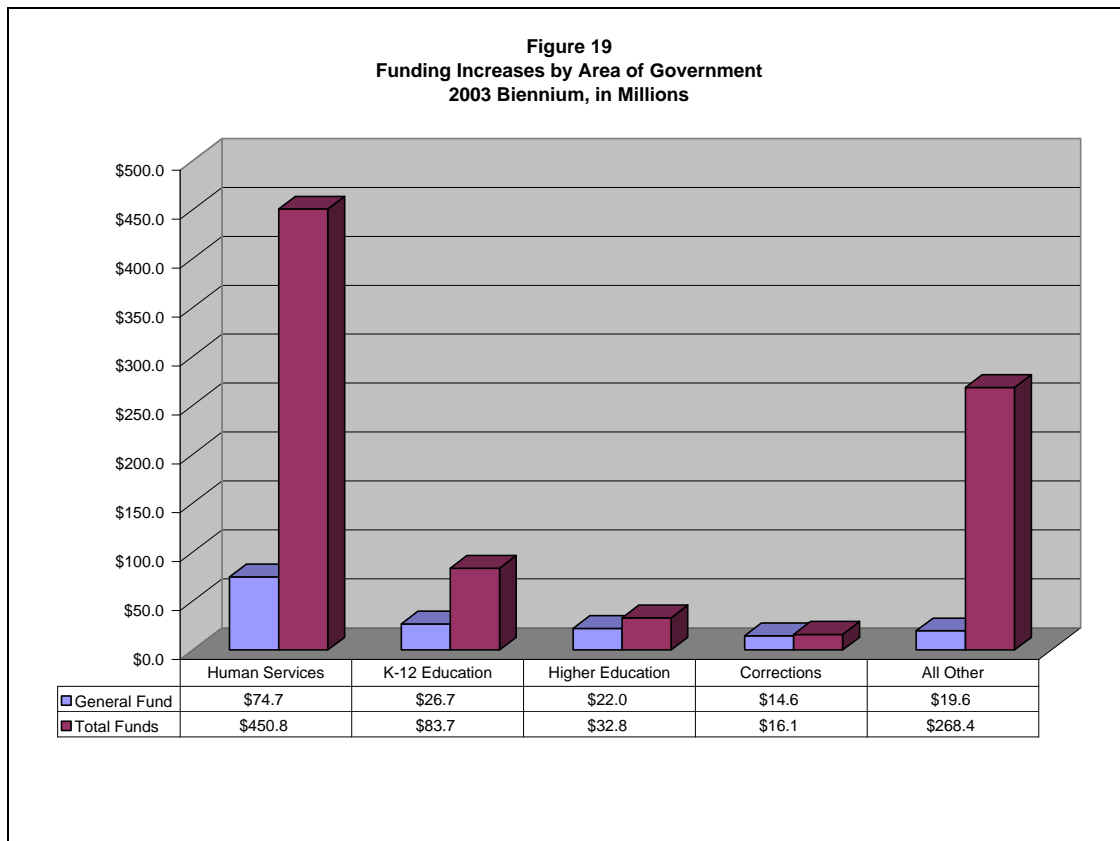


Figure 19 shows the distribution of increases in general fund and total funds, by functional area of government.



As shown, the Department of Public Health and Human Services dominates all increases, both in general fund and total funds. When combined with K-12 and Higher Education, these three areas constitute almost 80 percent of all increases in general fund provided by the legislature. As stated, this dominance mirrors the dominance of these areas in total general fund expenditures.

Expenditures, and consequent increases in these areas, are a result of a combination of discretionary and mandatory factors. In human services and K-12 education (and to a lesser extent higher education), both areas are impacted by demographic and/or eligibility criteria tied closely to socio/economic factors that can largely be out of the control of state government, such as the number of students enrolled, medical costs, and the number of persons eligible for public assistance.

The increase in human services expenditures is the result of a combination of both increased mandatory and discretionary expenditures. While increases in mandatory human services expenditures have been muted in the last several biennia due primarily to stabilization of medical costs, these costs are growing at a higher rate in this biennium than in the past three biennia, resulting in an increase in human services costs over which the state has less control. At the same time, the legislature took a number of discretionary actions within human services, the single largest being the provision of provider rate increases and increases for direct care worker salaries. The combination of these discretionary and mandatory expenditures result in the large increase in human services general fund expenditures.

Because of its size, and because statute dictates the level of state support per student, small changes in K-12 enrollment can have a major impact on expenditures. In the 2003 biennium, increases in K-12 education are largely discretionary in nature, as the factors causing mandatory changes in expenditures are actually continuing the decline experienced for the last several biennia. While higher education enrollments are rising, the legislature has discretion over the level of compensation provided per student, and the primary increases in this area are for additional support per student, replacement of reduced mill levy, and maintenance of university system personal services.

PUBLIC HEALTH AND HUMAN SERVICES

The Department of Public Health and Human Services (DPHHS) shows the largest increase in both general fund and total funds. The 2003 biennium appropriation, not including the pay plan, is \$450 million higher than the 2001 biennium level - a 28 percent increase. Federal funds rise the most - \$393 million or 87 percent. General fund increases \$75 million or 16 percent and state special revenue decreases \$17 million.

The most significant increases are:

- ?? Caseload increases and annualization of fiscal 2001 provider rate increases for Medicaid, the Children's Health Insurance Program (CHIP), and foster care and adoption add \$165.2 million total funds, including \$35 million general fund
- ?? 2003 biennium provider wage and rate increases add \$45.8 million, including \$12.9 million general fund
- ?? Changes due to HB 124, the local government funding bill, add \$28.6 million general fund and reduce state special revenue \$27.3 million
- ?? Medicaid intergovernmental transfer programs add \$23.2 million total funds, including \$6.3 million county matching funds in state special revenue

About 32 percent of the total increase, \$144 million, is due to appropriations for costs that are not necessarily new expenditures, but reflect changes in accounting procedures or the non-budgeted status of a particular item. For example, appropriation authority for food stamp benefits historically has not been included in the general appropriations act. However, due to a change in how benefits will be distributed, appropriations for these expenditures must now be authorized in the general appropriations act. The appropriations for expenditures previously not included in HB 2 are:

- ?? Food stamp benefit appropriations of \$103.3 million federal funds
- ?? Medicaid drug rebate and third party collections of \$34 million in federal and state special revenue
- ?? Infant formula rebate in the Women, Infants, and Children (WIC) program of \$6.6 million federal funds

Other increases in appropriations of federal funds include:

- ?? \$31.8 million for FAIM Phase II-R
- ?? \$23.2 million for Medicaid intergovernmental transfer programs
- ?? \$13.1 million for childcare services and the Child and Adult Food Care program
- ?? \$10.5 million for federal substance abuse block grant increases
- ?? \$7.8 million to expand Medicaid services including outpatient chemical dependency services
- ?? \$5.5 million to offset general fund cost of, or expand services for, the developmentally disabled, physically disabled and aged and services provided by schools
- ?? \$3 million for a Community Collaboration Project to recoup additional federal Title IV-E funds

K-12 EDUCATION

General fund to support K-12 education increased \$26.7 million compared to the 2001 biennium. After adjustments to more accurately reflect the 2001 biennium base, general fund to support K-12 education increased by \$7.9 million. This increase was the net result of:

- ?? A \$16.7 million present law reduction due to lower enrollment
- ?? A savings in general fund \$4.9 million in timber funds for school technology, as these funds will now be statutorily appropriated
- ?? An increase in entitlements of \$26.7 million
- ?? An increase of \$2.8 million in other general spending for special education, school facility reimbursements and adult education.

Figure 20 shows a comparison of support for K-12 education for the 2003 biennium and the 2001 biennium, with adjustments.

Figure 20
K-12 Distribution to Schools
Millions

Account	2001 Biennium	Present Law 2003 Biennium	Difference	New Law 2003 Biennium	New Law Less Present Law	Total Biennial Difference
General Fund						
BASE Aid	\$874.65	\$857.92	(\$16.73)	\$884.67	\$26.74	\$10.01
Special Education	67.80	67.80	-	68.82	1.02	1.02
School Facility Reimbursements	7.50	8.00	0.50	9.05	1.05	1.55
School Technology	4.92	-	(4.92)	-	-	(4.92)
Other General Fund	<u>27.00</u>	<u>27.15</u>	<u>0.16</u>	<u>27.20</u>	<u>0.05</u>	<u>0.21</u>
Total General Fund	981.87	960.88	(20.99)	989.74	28.86	7.87
State Special Revenue						
Traffic Safety Distribution	2.00	1.50	(0.50)	1.50	-	(0.50)
School Technology Acct-Statutory	-	-	-	2.85	2.85	2.85
School Flexibility Account	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5.08</u>	<u>5.08</u>	<u>5.08</u>
Total State Special	2.00	1.50	(0.50)	9.43	7.93	7.43
Total State Sources	983.87	962.38	(21.49)	999.17	36.79	15.30
Federal Revenue	<u>162.17</u>	<u>167.57</u>	<u>5.40</u>	<u>197.89</u>	<u>30.32</u>	<u>35.72</u>
Total Funds	<u>\$1,146.04</u>	<u>\$1,129.95</u>	<u>(\$16.09)</u>	<u>\$1,197.05</u>	<u>\$67.11</u>	<u>\$51.02</u>

The amounts for the 2001 biennium include actual spending in fiscal 2000, and appropriated amounts in fiscal 2001. The amounts in the 2001 biennium also include a \$8.9 million supplemental for BASE aid, and one-time only spending for school technology in the general fund. The new law authorization for school technology is no longer in the general fund, but is a statutory appropriation from state special revenue funds. Not included in the 2003 biennium is a \$5 million general fund transfer to the school flexibility account. This amount (plus interest) is shown as a state special revenue obligation.

Not shown in the general fund portion of Figure 20 is a transfer of \$5.0 million from general fund to a state special revenue account. This amount is shown as a state special spending increase. The amount shown for the 2001 biennium includes supplemental appropriations of \$8.9 million for BASE aid and \$1.5 million for school technology. In addition, the 2001 biennium includes \$3.4 million in one-time-only authority to spend timber revenue for school technology.

The 57th Legislature increased state special revenue account spending for K-12 education between the two biennia. This was the net result of the following:

- ?? A reduction of \$0.5 million in spending for traffic safety as a result of lower revenue from driver's licenses
- ?? A funding switch for school technology derived from timber revenues previously paid for by general fund and now statutorily appropriated (\$2.85 million)
- ?? A new distribution program to fund school flexibility accounts (\$5.083 million)

The 57th Legislature also increased federal spending authority between the two biennia by \$35.7 million. This was primarily the result of increased present law authority for special education, reduced class size, and new authority for emergency school renovation (\$11.0 million)

HIGHER EDUCATION

The statewide summary tables and charts in this volume include only the state general fund and other funds consisting of millage, Resource Indemnity Trust (RIT) funds, motorcycle endorsement and

registration fees, and federal funds in the budget of the Office of the Commissioner of Higher Education (OCHE), which are appropriated in HB 2. The tables and charts do not include tuition, interest, or agency federal funds, which are university funds the legislature appropriated in HB 2 language. Biennial comparisons for the university units, including university funds, are detailed in the Higher Education narrative on page E-55 in Volume 4 of this publication.

The legislature increased all general fund spending for the Montana University System \$22.0 million (8.7 percent) from the 2001 to the 2003 biennium. Major items contributing to the biennial increase include:

- ?? \$7.5 million for an approximate \$100 per resident student increase in state support in fiscal 2002 and an additional \$100 per resident student increase in fiscal 2003
- ?? \$7.5 million for present law adjustments for annualization of the 2001 biennium pay plan, inflation, fixed costs, and projected resident student enrollment increases
- ?? \$6.2 million to replace declining property tax revenue from the statewide six-mill levy, reflecting property tax law changes in previous legislative sessions and the 2001 session
- ?? \$0.6 million to expand research and public service programs at the Agricultural Experiment Station and the Fire Services Training School
- ?? \$0.4 million to increase state support for Montana's community colleges, with a commensurate reduction in travel and other costs in the Montana University System
- ?? \$0.9 million to increase the Montana Tuition Assistance Program (MTAP) Baker Grants, with a commensurate reduction in travel and other costs in the Montana University System
- ?? A \$1.5 million general fund reduction equating to approximately one percent of personal services

State special revenue includes the statewide six-mill levy distributed to the units and colleges, Resource Indemnity Trust (RIT) funds used for the groundwater program at the Montana Bureau of Mines, and motorcycle endorsement and registration fees used for the motorcycle safety program at Montana State University–Northern. The legislature appropriated \$25.9 million state special revenue in the 2003 biennium for the general operation of the Montana University System, a \$5.8 million (18.3 percent) decrease from the 2001 biennium. Declining property tax revenue resulting from recent property tax law changes is the primary cause of the state special revenue decrease in the university system budget.

Federal special revenue includes a variety of federal education grants administered from the Office of the Commissioner of Higher Education (OCHE) and fees and program revenue earned by the Guaranteed Student Loan Program in the administration of the loan services it provides. Federal special revenue shown on the agency main table does not include any federal grants at the campuses.

The legislature appropriated \$92.9 million in federal special revenue for the programs administered in the OCHE for the 2003 biennium, a \$16.6 million (21.7 percent) increase from the 2001 biennium. Contributing factors to this biennial increase include a \$14.5 million in federal authority for the Guaranteed Student Loan Program to comply with a legislative audit recommendation to more clearly account for operating revenues and expenditures and a net \$2.1 million increase in federal education grants administered in the OCHE.

Total state funds spending authority, including general fund, increased \$32.7 million (9.1 percent) from the 2001 to the 2003 biennium. Approximately 44 percent of the increase is the result of the accounting change for federal funds in the Guaranteed Student Loan Program noted in the preceding paragraph. It

does not represent new funds (see “Guaranteed Student Loan Program” discussion in the OCHE section on page E-106 in Volume 4 of this publication).

CORRECTIONS

The general fund increase for corrections of \$14.6 million (8.1 percent) general fund, while still higher than the overall growth in general fund, is the lowest since prior to creation of the agency through reorganization by the 1995 legislature.

The increase in general fund is a net result of these major adjustments:

- ?? A present law increase for personal services zero-based items
- ?? Funding pay exceptions and additional correctional and probation and parole officers
- ?? Funding increased population projections
- ?? Savings due to SB 489, which changed the law to treat appropriate fourth DUI offenders in a residential alcohol treatment program, generating projected savings of \$6.1 million in contract and pre-release beds, with \$2.8 million appropriated to fund a residential alcohol treatment program at Warm Springs

FTE in the 2003 biennium increase by 62.85 from the 2001 biennium. This is a net result of:

- ?? Funding 49.0 correctional and probation and parole officers added as modified FTE in the 2001 biennium
- ?? Funding 21.0 FTE for the expansion at the Montana Women's Prison
- ?? Moving 15.0 FTE associated with the cook/chill operation off budget (from HB 2 to non-budgeted proprietary)
- ?? Funding 7.85 miscellaneous FTE

The legislature appropriated funds to support an average daily population of 9,812 male and female adult offenders (this includes probation and parole) in fiscal 2003. This represents a yearly compounded average increase of 5.2 percent of all populations in fiscal 2003 over the fiscal 2001 average daily population projection of 9,330. The percent of adult offenders treated in community corrections and secure facilities remains the same as the 2001 biennium - approximately 75 percent in community corrections 25 percent in secure facilities. Although only 25 percent of the adult population is in secure facilities, approximately 59 percent of the custody funding in the 2001 and 2003 biennia was for secure facilities with 41 percent funding community corrections.

TRANSPORTATION

The budget for the Department of Transportation increases \$117.0 million, or 13.4 percent, from the 2001 to the 2003 biennium. The increase is a net of the following:

- ?? Elimination of all general fund expenditures for the Governor's Drinking and Driving Prevention Program totaling \$0.5 million
- ?? Addition of \$23.0 million state special revenue to match additional federal funds, fully assume maintenance of state secondary roads per 1999 legislative action, and effect an accounting change (\$6.1 million)
- ?? Additional federal funds of \$94.5 million to increase payments to contractors due to higher construction payments, a federal sanction associated with Montana's non-compliance with federal open container and repeat drinking and driving sentencing requirements, and to effect an accounting change (\$23.5 million)